REVISED SUBMISSION 03-06-06

BEFORE THE SENATE COMMITTEE ON

COMMERCE, SCIENCE AND TRANSPORTATION

Hearing on Rural Telecommunications

March 7, 2006

TESTIMONY OF LAWRENCE E. SARJEANT

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QWEST

Good morning Mr. Chairman and Members of the Committee. My name is Lawrence Sarjeant, and I am Vice President for Federal Legislative and Regulatory Affairs for Qwest Communications International, Inc. (Qwest). Qwest and its predecessor companies have a long history of serving rural communities throughout its local service areas. I appreciate the opportunity to share its views with you at today's hearing on rural telecommunications issues.

Qwest provides local telephone service in fourteen states across the Central, Mountain and Pacific time zones. Its local service areas extend from Washington and Oregon east to Minnesota and Iowa, and from Montana south to Arizona and New Mexico. Qwest's local service area spans 270,896 square miles. It provides approximately 14.7 million access lines. That translates into an average of 55 access lines per square mile. When you consider that included within this average are metropolitan areas such as: Albuquerque, NM; Phoenix, AZ; Tucson, AZ; Denver, CO; Minneapolis/St. Paul, MN; Portland, OR; and Seattle, WA, you realize that much of Qwest's local service area is either rural or very rural.

<u>The Non-Rural Mechanism</u>

Despite its substantial rural service area, under Federal Communications Commission rules, and for the purpose of determining universal service high cost support, Qwest is considered a **"non-rural"** carrier. It is a classification that defies reality in much of Qwest's service area and deprives Qwest's rural customers of their fair share of support from the Universal Service High Cost Fund. Even as a non-rural carrier, Qwest receives a disproportionately low share of support from the non-rural carrier High Cost Model mechanism. Based on 2006 projections from the Universal Services Administrative Company (USAC), Qwest's region will receive annual High Cost Model support this year in four of fourteen states -- Montana, Nebraska, South Dakota and Wyoming -- in the total amount of $45,814,833. One non-Qwest state will alone receive $147,901,239 in support from this fund, more than three times the amount received by all fourteen Qwest states.

I would be remiss if I did not acknowledge at this point the efforts of Senator Gordon Smith to rectify this inequity by introducing S.284, the *Rural Universal Service Equity Act of 2005* during the 1st Session of this Congress. It should be noted, S.284 would not increase the size of the non-rural High Cost Model mechanism; rather, it would simply redistribute the available high cost support in a more equitable manner among states with rural, high cost communities. This measure passed out of this Committee last Congress by a vote of 13 to 9, and Qwest believes that it is as necessary today as it was then. It should be considered as a part of any future universal service reform legislation.

Having heard from two panels of witnesses last week concerning universal service contribution and distribution mechanisms, the Committee is well aware of the urgent need for universal service reform. The program has grown too large to be sustainable. Further, it unfairly differentiates between large rural carriers like Qwest and small rural carriers serving virtually identical high cost service areas in determining the amount of high cost support for which a carrier is eligible. Finally, the current contribution base is shrinking and must be broadened just to sustain the Universal Service Fund at its current level. But, as massive a challenge as universal service reform presents, there is another challenging matter that threatens to make universal service reform even more daunting. That matter is inter-carrier compensation reform.

Inter-Carrier Compensation

Inter-carrier compensation concerns the rules governing compensation for the exchange of traffic between and among inter-connecting telecommunications carriers. It includes arrangements where carriers agree to exchange no compensation while accepting each other's traffic (“bill and keep”). Today, we have multiple inter-carrier compensation schemes that were developed at different times and under different circumstances. For example, arrangements concerning the exchange of Internet traffic by Internet backbone networks are largely market-based, commercial arrangements. Peering, or bill and keep, is common between Internet backbone networks for the exchange of Internet traffic. Where long distance services are involved, there are both interstate and intrastate access charge regimes that are regulated by the FCC and state public service commissions, respectively. Typically, long distance carriers pay local exchange carriers to deliver long distance calls to local customers. Among competing local exchange carriers, there are the reciprocal compensation rules, which allow a local exchange carrier to be compensated by another local exchange carrier for the termination of local traffic between local customers. Under the Telecommunications Act of 1996, reciprocal compensation may be in the form of an actual payment or it may be a bill and keep arrangement. Since the inception of access charges in the mid-1980s and reciprocal compensation in 1996, regulators and the courts have been kept busy deciding disputes challenging whether proposed access charges and reciprocal compensation rates were just and reasonable. Because inter-carrier compensation regimes vary by jurisdiction, arbitrage has also become a significant problem.

Why should Congress be concerned about inter-carrier compensation reform? You should be concerned because several inter-carrier compensation reform proposals presented to the FCC, if adopted, would put more upward pressure on the size of the Universal Service Fund. Congress can forestall this possibility by capping the Universal Service Fund immediately.

Past reforms of the interstate access charge rules have been undertaken by the FCC in order to remove subsidies that historically existed in access rates. This was necessary in an increasingly competitive telecommunications market. Such subsidies were not sustainable in the long term. In removing subsidies from incumbent local exchange carrier access rates, the FCC shifted recovery of much of the forgone subsidy to the Universal Service Fund. Price cap carrier access reform resulted in the creation of the Interstate Access Support (IAS) mechanism ($725,271,912 for 2006 as estimated by USAC) and rate of return carrier access reform resulted in the creation of the Interstate Common Line Support (ICLS) mechanism ($1,260,864,360 for 2006 as estimated by USAC). Shifting these subsidies from interstate access to the Universal Service Fund back in 2000 and 2001 may have been both necessary and appropriate at the time. It is neither necessary nor appropriate now.

Qwest has presented an inter-carrier compensation reform proposal to the FCC that does not rely on increasing the amount of universal service support distributed by the Universal Service Fund. The size of the Fund is already considerably higher than is reasonable and should not be increased. Further, support should be distributed more fairly and the contribution base should be broadened. The total amount of the Fund should not be raised as part of an inter-carrier compensation reform plan. Rather, it should be capped to prevent increases in the future that would further jeopardize the Fund's sustainability. Expeditious Congressional action to cap the Fund will ensure that it will not become a casualty of inter-carrier compensation reform.

Thank you.

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